

Baba Satyanarayan Himghar Private Limited
February 24, 2020
Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	7.25	CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable; Issuer Not Cooperating*)	Revised from CARE B; Stable (Single B; Outlook: Stable); Issuer Not Cooperating; based on best available information
Total	7.25 (Rupees Seven Crore And Twenty five lakh only)		

*Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Baba Satyanarayan Himghar Private Limited to monitor the rating vide letters/e-mails communications dated 01.11.2019, 15.01.2019, 04.02.2020 and numerous phone calls. However, despite our repeated requests, the entity has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at fair ratings. The Baba Satyanarayan Himghar Private Limited's bank facilities will now be denoted as **CARE B-; Stable; ISSUER NOT COOPERATING***. However, banker could not be contacted.

Users of these rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The rating assigned to the bank facilities of Baba Satyanarayan Himghar Private Limited is constrained by its small scale of operations with moderately low profitability margins, risk associated in renovation of existing unit, seasonality of business with susceptibility to vagaries of nature, regulated nature of business, risk of delinquency in loans extended to farmers, competitive and fragmented nature of industry and working capital intensive nature of business and leveraged capital ratios and weak debt coverage indicators.

However, the aforesaid constraints are partially offset by its experienced management and long track record of operations, proximity to potato growing area.

Going forward, ability to increase its scale of operation and profitability margins and ability to manage working capital effectively are the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Weaknesses:
Small scale of operation with moderately low profitability margins

Baba Satyanarayan Himghar Private Limited is a relatively small player in the cold storage business having total operating income and PAT of Rs.0.25 crore (Rs.2.51 crore in FY18) and Rs.-0.19 crore (Rs.0.49 crore in FY19), respectively, in FY19. The tangible net worth of the company was at Rs.1.91 crore as on March 31, 2019. The small size restricts the financial flexibility of the company in terms of stress and deprives it from benefits of economies of scale. Due to its relatively small scale of operations, the absolute profit levels of the company also remained low. Furthermore, the profitability margins of the company remained moderately low marked by PBILDT margin and PAT margin in FY19.

Seasonality of business with susceptibility to vagaries of nature

The cold storage business is seasonal in nature as potato is a winter season crop with its harvesting period commencing in February. The loading of potatoes in cold storages begins by the end of February and lasts till March. Additionally, with potatoes having a perceivable life of around eight months in the cold storage, farmers liquidate their stock from the cold storage by end of season i.e., generally in the month of November. The unit remains non-operational during the period from December to January. Moreover, lower agricultural output may have an adverse impact on the rental collections as the cold storage units collect rent on the basis of quantity stored and the production of potato is highly dependent on vagaries of nature.

Regulated nature of business

In West Bengal, the basic rental rate for cold storage operations is regulated by state government through West Bengal State Marketing Board. Due to ceiling on the rentals to be charged it is difficult for cold storage units like Baba

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; based on best available information

Satyanarayan Himghar Private Limited to pass on sudden increase in operating costs leading to downward pressure on profitability.

Risk of delinquency in loans extended to farmers

Against the pledge of cold storage receipts, Baba Satyanarayan Himghar Private Limited provides advances to farmers. Before the close of the season in November, the farmers are required to pay their outstanding dues, including repayment of the loan taken. In view of this, there exists a risk of delinquency in loans extended to farmers as significant amount of working capital remained blocked in advances given to the farmers. In case of downward correction in potato or other stored goods prices as all such goods are agro commodities which may affect the financial risk profile of the company.

Competitive and fragmented nature of industry

In spite of being capital intensive, the entry barrier for new cold storage is low, backed by capital subsidy schemes of the government. As a result, the potato storage business in the region has become competitive, forcing cold storage owners to lure farmers by providing them interest bearing advances against stored potatoes which augments the business risk profile of the companies involved in the trade. Baba Satyanarayan Himghar Private Limited is mainly into storage of potatoes which is highly fragmented and competitive in nature due to presence of many small players with low entry barriers. In such a competitive scenario smaller companies like Baba Satyanarayan Himghar Private Limited in general are more vulnerable on account of its limited pricing flexibility.

Working capital intensive nature of business

Baba Satyanarayan Himghar Private Limited is engaged in the cold storage business; accordingly its operation is working capital intensive. The company also provides advances to farmers who have stored their agriculture commodities with them. Accordingly the companies require more working capital.

Moderate Capital structure and weak debt coverage indicators

The overall gearing ratio of the entity remained moderate marked by 2.08x as on March 31, 2019. Moderate capital structure was on account of higher working capital utilization during FY19. However, the debt coverage indicators of the entity remained weak marked by weak and weak total debt to GCA in FY19. The interest coverage ratio deteriorated during FY19 on account of lower PBILDT during the period.

Key Rating Strengths

Experienced management & long track record of operations

Baba Satyanarayan Himghar Private Limited is into cold storage services since May 1978 and thus has long operational track record. Due to long track record of operations of the company, the promoters have gained significant experience in the cold storage industry. The day to day operations of the company are looked after by Mr. Deoshankar Shaw, Mr. Hemanta Kheto, Mr. Naba Kumar Das, Mr. Badal Chandra Patra, Mr. Arup Kumar Ghosh, Mr. Gagan Chandra Aru, Mr. Sanat Kumar Adak, Mr. Tapas Dey Kumar, who have significant experience in cold storage and trading of potatoes business. The benefit derived from the experience directors and healthy relation with farmers is continuing to support the company.

Proximity to potato growing area

Baba Satyanarayan Himghar Private Limited's storage facility is located at Hooghly, West Bengal which is one of the major potato growing regions of the state. The favorable location of the storage unit, in close proximity to the leading potato growing areas provides it with a wide catchment and making it suitable for the farmers in terms of transportation and connectivity.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch'](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Policy on Default Recognition](#)

About the Company

Baba Satyanarayan Himghar Private Limited (BSHPL) was incorporated in May 1978. Since its inception the company is engaged in cold storage services. The company provides cold storage services primarily for potatoes to the farmers and traders on a rental basis. The cold storage unit of the company is located at Sahapur, Tarkeshwar, Hooghly-712410, with a storage capacity of 196265 quintals. Besides providing cold storage facility, the unit also works as a mediator between the farmers and marketers of potato, to facilitate sale of potatoes stored and it also provides interest bearing advances to farmers for farming purpose against potatoes stored. Currently, the company is renovating its existing cold storage unit which was damaged due to fire on February 16, 2018. The day to day operations of the company are looked after by Mr. Deoshankar Shaw, Mr. Hemanta Kheto, Mr. Naba Kumar Das, Mr. Badal Chandra Patra, Mr. Arup Kumar Ghosh, Mr. Gagan Chandra Aru, Mr. Sanat Kumar Adak, Mr. Tapas Dey Kumar, who have significant experience in cold storage and trading of potatoes business.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2.51	0.25
PBILD	0.65	0.00
PAT	0.49	-0.19
Overall gearing (times)	0.00	2.08
Interest coverage (times)	10.79	-0.04

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable.

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2026	3.70	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	3.20	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable on the basis of best available information
Fund-based - LT-Working capital Term Loan	-	-	-	0.35	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable on the basis of best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	3.70	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable on the basis of best available information	-	1)CARE B; Stable (14-Dec-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	3.20	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable on the basis of best available information	-	1)CARE B; Stable (14-Dec-18)	-	-

				information				
3.	Fund-based - LT-Working capital Term Loan	LT	0.35	CARE B-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B; Stable on the basis of best available information	-	1)CARE B; Stable (14-Dec-18)	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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